COST CONTROLS AND PROFITABILITY IN MANUFACTURING FIRMS IN HARGEISA, SOMALIA

BY

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DECLARATION

I, Abdihakim Jama Hassan, do hereby declare that the content of my study herein, to the best of my knowledge, is my original work and has never been presented for a degree of in any institution.

Sign Date

………………………………………… ………………………………………

APPROVAL

I certify that the work submitted by this student was under my supervision and is now ready for the award of masters degree in accounting and finance of Kampala international University

Supervisor: Signature

………………………………………

Date: ……………………………………

DEDICATION

I dedicate this work to my parents and family members for their moral support and the encouragement that they gave me during the study.

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I wish to acknowledge and be grateful to Allah for enabling me to reach this point in my academic life and I am so thankful for His unconditional protection.

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ABSTRACT

The study sought to assess the effect of cost controls on profitability of manufacturing firms in Hargeisa- Somalia. It was guided by three specific objectives, that included i) determining the effect of budget control on profitability of manufacturing firms in Hargeisa Somalia; ii) examining the effect of cost allocation on profitability of manufacturing firms in Hargeisa Somalia and (iii) to establish the effect of cost monitoring and control on profitability of manufacturing firms in Hargeisa Somalia. This research employed a descriptive research design to describe the variables, the questionnaire and interview guide were used as the research instruments. Descriptive statistics were used in this study included frequencies, means on analysis on variables. The findings revealed the following: The findings indicated that budget control significantly affects the profitability of manufacturing firms in Hargeisa Somalia, this effect therefore implies that budget control highly contribute to the profitability of Manufacturing firms in Hargeisa Somalia, the findings revealed that there is a significant effect cost allocation has on profitability of manufacturing firms in Hargeisa Somalia, findings of this study proved a positive significant effect cost monitoring has on profitability of manufacturing firms in Hargeisa Somalia. Still the researcher concluded that; budget control has a considerably high influence on the profitability of the manufacturing organizations, hence there is need for improving the budgetary controls to enhance profitability, cost allocation has a weak significant effect on profitability of manufacturing firms in Hargeisa Somalia and this indicates that cost allocation has a high bearing on profitability of the manufacturing organizations, and finally cost monitoring has a positive significant effect on profitability of manufacturing firms in Hargeisa Somalia and hence indicating that cost monitoring has a bearing on the profitability hence there is need for enhancing monitoring given the state of the profits though other factors complemented in the study. The researcher recommended that: there is need to enhance the budgetary controls through improving the mechanism for budgeting as the mechanism for enhancing profitability, there is need for managers who are responsible for the setting cost allocation standards to be educated on the relevance for the costs of the manufacturing firms. Adherence to the standard costing information should be practiced by the top management as it is a tool for the improvement of profit in the manufacturing firms. The study contributed to new knowledge through the following; One of the most prominent findings from this study is the fact that it has provided evidence to support the fact that cost control can improve the state of profitability of the manufacturing organizations mechanism in Hargeisa Somalia.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter contains the background, problem statement, scope, hypothesis, general objective, specific objective, research questions, significance of the research and the operational terms.

1.1 Background of the study

The background of the study consists of the historical background, theoretical background, conceptual background and contextual background.

1.1.1 Historical Perspective

The history of cost control dates back to the 20th century where cost reporting was designed to meet the information needs of the property managed institutions like banks. With the introduction of revolutionary industrialization, complex companies became sophisticated and cost management practices were eminent. Model emphasized stewardship, decision making, and performance evaluation was emerged. This information was designed to support managerial decision making and cost management in companies (Deconan, 2013).

In the latter half of the 21st century large, sophisticated and large companies would hold large proportions and shares of company profits and costs on behalf of other individuals. Cost management industry in general has undergone some major changes over the last two decades (Marcus, 2015). These changes took place in several phases. During the phase from the early 2014s until about 2015, assets under cost controls sky-rocketed due to the high liquidity in the global financial markets caused by abundant credit and ever-increasing personal asset valuations (for example house prices). This phase also witnessed the formation of hedge funds (asset managers who typically have a smaller number of clients and who can take very risky positions and bets that may yield substantial returns). These funds continue to play a major role in the financial markets, mainly because of their ability to take advantage of arbitrage opportunities (Barney, 2011).

Cost control across the globe is fundamental as organizations strive to attain a competitive edge, Shrank (2001) opined that to determine the strategic impact of cost cutting, management across the globe is fundamental if the organization has to weigh the net effects of the proposed change on all areas of the business. For example, reducing variable costs related directly to manufacturing a product, such as materials and transportation costs, could be the key to greater incremental profits. However, management must also consider whether saving money on production is jeopardizing other strategic interests like quality or time to market. If a cheaper material or transportation system negatively impacts other strategic variables, the nominal cost savings may not benefit the company in the bigger picture, i.e. it may lose sales. In such scenario manager requires the discipline not to place short term savings over long term interests. They further opined that one trend in cost control has been toward narrowing the focus of corporate responsibility centers, thereby shifting some of the cost control function to day-to-day managers who have the most knowledge or influence over how their areas spend money (Marcus, 2015).

The African design of countries provides a means for which cost control for the profitability of the organizations. Cashin (1998) posited that responsibility accounting is a system designed to accumulate and report costs by individual levels of responsibility, each supervisory area is charged only with the cost for which it is responsible and over which it has control. The responsibility accounting system should also provide costs for establishing policies and for making daily decision. Most cost accounting systems were originally designed to accumulate and distribute costs for product or inventory cost and for general cost control. The accounts were set up to gather products costs and period costs in accordance with the needs of the income statement and balance sheet.

Under the double-effect of the pressure coming from the competition and the world financial crisis, the enterprises feel the need to understand better their costs in order to determine with maximum precision the selling prices and the limits that can be achieved for each product. It's not only about prevision, there should also be considered the necessary ways in order to achieve the goals. That's how we can explain the development of the today's managerial control and of its favourite instrument, the analytic accounting of which no enterprise in Africa could be spared, and this is because behind the demand and offer of all price-competition there lies, indirectly, the cost-competition.

In the absence of a central government apparatus and regulatory bodies, there is no formal tax policy in Somalia, cost control is not effective. Businesses are not regulated or taxed, though an informal system of taxation has developed. Industries operate informally, even when they are highly profitable. Somalia has been characterized by high public expenditures by Governments, deficit financing through money printing, uncontrolled money supply and inflationary trends. The value of the Somali Shilling (SOS) is quite difficult to determine given the fluctuation of exchange rates from region to region within the Somali territory. The inflation rate is estimated to remain in the range of 300%. Vander stede (2001) contend that Crisis periods have their own characteristics. The first and the most important is the fact that they produce big changes. These changes don't appear when an economy works at full speed ahead, when new jobs are available and wages grow from year to year, because when we are dealing with a positive economical dynamic it is hard to believe that there is a motivation for important measures.

1.1.2 Theoretical Perspective

Transaction cost theory

The study was guided by the transaction cost theory developed by Commons (1931). The idea that transactions form the basis of an economic thinking was introduced by the institutional economist (Commons 1931). He said that: These individual actions are really trans-actions instead of either individual behavior or the "exchange" of commodities. It is this shift from commodities and individuals to transactions and working rules of collective action that marks the transition from the classical and hedonic schools to the institutional schools of economic thinking. The shift is a change in the ultimate unit of economic investigation. The term "transaction cost" is frequently thought to have been coined by Ronald Coase, 1970 who used it to develop a theoretical framework for predicting when certain economic tasks would be performed by firms, and when they would be performed on the market.

Transaction cost reasoning became most widely known through transaction Cost Economics (Williamson, 1981) today, transaction cost economics is used to explain a number of different behaviors. According to Williamson, the determinants of transaction costs are frequency, specificity, uncertainty, limited rationality, and opportunistic behavior. The transaction cost theory explains that an effective established system as transaction in an organization enables the management of costs. The transaction cost theory provides that profitability is dependent

on a system set in the organization such as cost controls that support the organization's occupations and working environment.

1.1.3 Conceptual Perspective

This section presented the standard definitions of the variables (cost control and profitability) as indicated below;

Vosselman (2005) defined cost control as a set of cost accounting methods and management techniques with the goal of improving business cost efficiency, by reducing costs or at least restricting their rate of growth. Businesses use cost control methods to monitor, evaluate and ultimately enhance the efficiency of specific areas, such as departments, divisions or product lines within their operations. Cost control as a practice of comparing the cost of a business activity with the original cost in order to ascertain if the cost is as planned. In this study cost control is conceptualized as cost analysis, cost allocation and Cost monitoring and control in the organizations

Cost analysis is a systematic approach to estimating the strengths and weaknesses of alternatives (for example in transactions, activities, and functional business requirements or projects investments); it is used to determine options that provide the best. It is the act of breaking down a cost summary into its constituents and studying and reporting on each factor. It is the comparison of costs (as of standard with actual or for a given period with another) for the purpose of disclosing and reporting on conditions subject to improvement.

Cost allocation: Cost allocation is a process of providing relief to shared service organization's cost centers that provide a product or service. In turn, the associated expense is assigned to internal clients' cost centers that consume the products and services. For

Cost monitoring and control arise from activities designed to limit the agents' (from the principals' point of view) harmful actions. Bonding expenditures result from the agents' actions to assure the principals that they will not take certain actions.

Dwivedi (2005) defined profitability as an income accruing to the equity holders in the same sense as wages accrue to labour, rent to the owners of rentable assets and interest to the money lenders.

Kakuru (2005) also defined profitability as the difference between the revenue generated by corporate firm and expenses incurred during the operation of the business. He further classified that various costs incurred by these firms some of which are fixed costs like rent while other are variable costs which can easily change for example electricity expenses and the corporate firms can easily achieve increased sales.

More So Brinker (2002), defined profitability as the difference between the revenue generated and the costs incurred to produce the same revenue during a given accounting period so to him corporate firms should aim at increasing sales revenue and reduce costs incurred so that they achieve the desired levels of profitability.

1.1.4 Contextual Perspective

The success of a company largely depends on the profit that it can realize. The profit is determined by the costs that are made and the extent in which these costs are. Therefore, it is essential for a company to know the costs and being able to control them. Therefore, the manufacturing companies in Somalia are suffering from less profitability due to improper cost control (Powell, 2017). According to the United Nations Development Programme (UNDP) Somalia, Somalia's economy consists of both traditional and modern production, with a gradual shift to more modern industrial techniques. According to the Central Bank of Somalia, about 80% of the population is nomadic or semi-nomadic pastoralists, who keep goats, sheep, camels and cattle and all these manufacture deal in the manufacturing of agricultural products (Central Bank of Somalia Annual Report, 2017). Unrealization of profit targets, in ability of cost recovery, poor sales volume and less competitiveness are the major signs of poor profitability. Incase this problem (poor profitability) remain unchanged it may cause liquidation of many companies, bankruptcy and insolvency which negatively reflect to the entire wellbeing of the economy of Somalia set to investigate the cost control but did not fully execute the parameters of budgets, monitoring and cost evaluations. Based on the problem mentioned, the researcher examined whether cost control can influence the profitability of manufacturing firms.

1.2 Problem Statement

The prevailing state of low profitability of manufacturing firms in Hargeisa Somalia presents largely negative consequences such as collapse of the manufacturing firms due to low profits which leads to unemployment, loss of government revenue through taxation that (World Bank Report, 2016). The low level of profits generated is a frequent phenomenon among manufacturing firms in Hargeisa, Somalia. A number of manufacturing firms have failed and closed after incurring a lot of losses and these failed manufacturing firms include fish-canning and meat-processing plants. As a result of these failed small scale enterprises, it has resulted into different negative consequences such as increased rate of unemployment, and low level of taxes collected. Low levels of profitability could be a result of a number of

factors including limited funds as evidenced by the few existing manufacturing firms in Hargeisa, Somalia, high taxes imposed on these manufacturing firms, increased corruption in the country and this leads to mismanagement of the existing little financial resources, poor planning among the manufacturing firms. Though a number of factors are responsible for the low levels of profitability of manufacturing firms, it is important to find out how cost control affects the profitability of manufacturing firms. Therefore this study was set to establish the effect of cost control on profitability of the manufacturing firms in Hargeisa Somalia.

1.3 Purpose of the study

The purpose of the study is to establish the effect of cost controls on profitability of manufacturing firms in Hargeisa Somalia.

1.4 Specific Objectives of the study

To determine the effect of budget control on profitability of manufacturing firms in Hargeisa Somalia.

To examine the effect of cost allocation on profitability of manufacturing firms in Hargeisa Somalia.

To establish the effect of cost monitoring and control on profitability of manufacturing firms in Hargeisa Somalia.

1.5 Research Questions

What is the effect of budget control on profitability of manufacturing firms in Hargeisa Somalia?

What is the effect of cost allocation on profitability of manufacturing firms in Hargeisa Somalia?

What is the effect of cost monitoring and control on profitability of manufacturing firms in Hargeisa Somalia?

1.6 Hypothesis

H_1: There is a significant effect of budget control on profitability of manufacturing firms in Hargeisa Somalia

H_2: There is a significant effect of cost allocation on profitability of manufacturing firms in Hargeisa Somalia?

H_3: There is a significant effect of cost monitoring and control on profitability of manufacturing firms in Hargeisa Somalia

1.7.1 Geographical Scope

The study was conducted in the manufacturing firms of Ilo Tango, Maaxda and Cocacola all located in Hargeisa in Somaliland Hargeisa is a city situated in the Woqooyi Galbeed region of the self-declared but internationally unrecognized Republic of Somaliland in the Horn of Africa. It is the capital and largest city of Somaliland. Hargeisa is situated in a valley in the Galgodon (Ogo) highlands, and sits at an elevation of 1,334 m (4,377 ft). Home to rock art from the Neolithic period, the city is also a commercial hub for precious stone-cutting, construction, retail services and trading, among other activities. The area is chosen given that it has performance issues especially among the manufacturing firms in Hargeisa Somalia.

1.7.2 Content Scope

The study focused on cost control especially on aspects cost analysis, cost allocations and, cost control and monitoring including assessing their effect on the profitability of the manufacturing companies in the place selected for the study.

1.7.3 Time Scope

The study was conducted for a period of Eleven (11) months. This study was conducted from January 2017 to November 2017, whereby proposal writing took place from January 2017 to May 2017, data collection and analysis was done between June-October 2017, and then the final report was written and submitted in November 2017. This is chosen because it can enable the researcher to collect sufficient data from the respondents. The time is chosen given that it can facilitate the attainment of sufficient data.

1.8 Significance of the study

The study will benefit the managers and owners of manufacturing firms who are experiencing nowadays cost control problem and improving their understanding towards the role of cost control on profitability of manufacturing firms.

The findings and conclusions resulting from the study also will contribute to the body of knowledge on the relationship between cost control and profitability of manufacturing firms. Future researchers and academicians may use the study findings to further their research.

Other manufacturing companies in Somalia can use the findings of the study to identify different costs and measures to reduce them and what they can do to improve the level of profitability.

To the **future researchers,** this research study will widen their knowledge and scope **1.7.0 Scope of the study**

concerning cost control and profitability. As they conduct their own studies, the information in this research study can be of significance to these researchers and students because they will be able to identify the areas that need more research as they read what was researched in this research study.

The findings and conclusions resulting from the study will also fill and close the gaps in literature on cost control and profitability of manufacturing firms.

1.9 Operational definition of Key terms

Cost control; is the mechanisms employed by an organization or firm intended to monitor, expedite and evaluate the expenditure requirements in a given production or organization undertaking.

Budgetary control; refers to the designing of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results, either to secure by individual action the objective of that policy, or to provide a basis for its revision.

Cost allocation; refers to the process of identifying, aggregating and signing costs to cost objects.

Cost monitoring; refers to the process of planning and controlling of costs in an organisation

Profitability is the measure of the value, earnings or differences between the company's operations costs and the sales revenue from the operations.

Profitability; refers to the difference between the revenue generated and expenses incurred during the business activity.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed relevant sources of literature that deliberate on cost controls and profitability of organization. It comprises four main sections which are theoretical review, conceptual framework, related studies and research gaps.

2.1 Theoretical Review

Clark's Dynamic Theory of Profit (1991)

Clark's Dynamic Theory of Profit (1991) suggest that profit is a residue, the difference between price and costs, due to the reductions in the cost effected by changes in the economy such as population increase (this reduces wages), increased capital supply (this reduces the interest rate charged and hence the cost of capital comes down), innovatins (reduces costs), higher inventory (windfall profits occur when the cost of production remains the same but the price shoots up perhaps due to inflation or higher demand), forms of organisation (reduces costs), technological improvements (reduces the costs). This theory is also known as windfall theory of profits. This theory treats profits as a residue in price after deducting costs, hence it is a residual theory of profits. The static economy is one in which the things do not change significantly or remains unchanged. Such as, the population and capital remain stationary, goods continue to be homogeneous, production process remains unchanged, and the factors of production enjoy freedom but does not move because the marginal product in each industry remains the same. Also, there is no uncertainty and risk. On the contrary, the dynamic economy is characterized by the generic changes such as an increase in population, improvement in production techniques, change and increase in the consumer demands, changes in the organizational forms, increase in capital. The major function of an entrepreneur is to work in a dynamic economy to take the advantage of these changes and promote his business, reduce costs, and expand sales (Horngren, 2005).

Clark believed that those entrepreneurs who successfully take the advantage of these changes in the dynamic economy make the pure profit, which is in addition to the normal profit. Pure profits are short lived because, in the long run, the competitors imitate the changes initiated by the leader. As a result, the demand for the factors of production increases, thereby

increasing the factor prices and the overall cost of production. On the other hand, with an increase in the output, the price of a product declines for a given level of demand as a result of which the pure profits disappears (Kellerman, 2010).

Thus, according to Clark, the profit is an elusive amount which can be grasped, but cannot be held by an entrepreneur as it slips through the fingers and bestows itself to all the society members. Clark's dynamic theory of profit should not be misinterpreted as, the profits in the dynamic economy remain for a short period of time and then disappears forever. But, however, generic changes take place frequently, and the manager or entrepreneur through his foresight must capitalize on it and continue to make a profit in excess of the normal profit (Shrank, 2001).

Transaction cost theory

This study is based on the transaction cost theory, in the transitional cost theory, technology is designed to lower transaction costs and must take into consideration that the introduction of this technology 'reduces the costs of exchange and increases gains for both parties, if the resources it consumes are less that the transaction costs incurred (Ciborra, 1993). It follows that the evaluation of the effects on the economic system must be considered in the context within which transactions occur. Markets, hierarchies, and teams are alternative solutions enforced to mitigate the effects of the complex set of factors that contribute to the emergence of transaction costs. Alternative frameworks need to be considered when studying the design of in order to reduce transaction costs. The automated systems provide an effect on the cost management for the banks given that major focus is for cost reduction mechanisms.

Reen's (2013) analysis on the book Teams, Market and Systems is a significant contribution to this debate. Following TCT, the work discusses how it is possible to formulate alternative solutions to enforce the different transactional mechanisms of teams, markets, and hierarchies. What characterizes the originality of this contribution is its depth and extensive analysis of alternative transactional mechanisms, in addition to depicting the proposed solutions in terms of development driven by TCT. Additionally, a framework is proposed that guides the decisions steps to be followed when assessing the cost-benefits associated with these alternative choices. Similarly Kellerman (2010) suggested that solutions designed to lower transaction costs should follow the efficiency criterion when designed: cost-benefit analysis is proposed as the optimal approach to aid such design.

Kotole (2011) discussed the impact on the market and hierarchies, arguing that ICT facilitates the transactional process, supporting information flow and management during the various phases of transactions. It was theorized that the use of TCT supports market structures where without the presence of a hierarchical solution would be required. In the same way, Tim (2011) argued that the use reduces information asymmetry and resultantly increases the conditions under which the market mechanism is an efficient allocative structure.

Hamilton (2010) argues that lower transaction costs because technology allows information to be communicated in real-time and at much lower costs, thereby reducing the costs that are required in order to find a particular good that is focus of the transaction. These authors also suggest that TCT enables an easier matching between buyers and sellers once goods have been located, and lowers the cost of brokerage. The study posits technology and TCT as enabling the design and deliberate strategic deployment of linkages and networks among cooperating firms intending to achieve joint strategic goals to gain competitive advantage Modigliani and Miller (2013).

Compensation Theory of Profit

Compensation Theory of Profit was developed by Alfred Marshall (1924) holds that the profit is the supply price of entrepreneurship or business power where business power is the supply of capital plus supply of the ability to maintain business plus supply of organisational ability for production. According to this theory there exists a normal rate of profit which is a return on capital that must be paid to the owners of capital as a reward for saving and investment of their funds rather than to consume all their income or hoard them. In a static economy where no unanticipated changes in demand or cost conditions occur, in long-run equilibrium the firms would be earning only normal rate of profit on their capital and entrepreneurial talent. This theory treats profit as a cost element and that profit is the price for the ‘function' of capital, hence it is a functional theory of profit. Under these conditions economic profits would not accrue to the firms. Frictional theory of profit explains that shocks or disturbances occasionally occur in an economy as a result of unanticipated changes in product demand or cost conditions which cause disequilibrium conditions. It is these disequilibrium conditions that bring into existence positive or negative economic profits for some firms. On the other hand, when firms are making losses (i.e. negative profits), some firms will leave the industry. This will cause price of the product to rise so that losses are eliminated and the remaining firms make only normal profits. When economic profits are

made in the short run, more firms will enter the industry in the long run until all economic profits are driven down to zero (that is, firms will be making only normal return or profits on their capital investment) (Kulter, 2007).

2.2 Conceptual framework

Independent Variable **Dependent Variable**

Cost control **Profitability**

- Budget control
- Cost allocation
- Cost monitoring and control

- Gross profit Margin
- Return on assets
- Returns on invested capital

Kakuru (2005)

The study has two variables, the independent variable and the dependent variable. The independent variable is cost controls which have been conceptualized into budget control, cost allocation and cost monitoring and control. The dependent variable is profitability which has been conceptualized as gross profit margin, returns on equity and returns on invested capital. The presence of positive cost control has a positive effect on the profitability of the organizations and the prevalence of negative cost controls reduces to the profitability of the manufacturing organizations. Cost allocation refers to the process of giving relief to shared service organization's cost centers that render a product or service. Cost monitoring; this comes from activities designed to limit the agents' (from the principals' point of view) harmful actions. Profitability; refers to an income accruing to the equity holders in the same sense as wages accrue to labour, rent to the owners of rentable assets and interest to the money lenders.

2.3 Review of related Literature

The review of related literature was presented following the study objectives;

2.3.1 Effect of Budget on profitability of organizations

Budgetary control is considered by the Institute of Cost and Management Accountants (CIMA) as the establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results,

either to secure by individual action the objective of that policy, or to provide a basis for its revision (Malcom and Harris, 2010).

The overall purpose of budgetary control is to help managers plan and control the use of resources in systematic and logical manner to ensure that they achieve their financial objectives, that is profit satisfying(making satisfactory level of profits) and profit maximization(making the maximum profit). The Hotel after having made their assumptions about the forth coming period, the next stage is to set out their financial strategies in detail by preparing financial and non-financial budgets that cover every aspect of the firm's activities (McMahon, 2013)

Bendney and Colston (2015) argues that small business are relatively easily controlled by one person, usually the owner, but as the business expands, however, there is a tendency to split the organization into parts and employ a specialist manager to run it with a number of specialist line manager who are responsible for the operations of the particular functions. It is important decisions here are made with in an overall plan which will ensure that the business as the whole will achieve its agreed objectives as budget will force the management to think a head to anticipate what is likely to happen. It is essential therefore, that the business develops a formal planning and control system which will state clearly the objectives for both a business as the whole and for each individual functional manager.

According to a Ecoman- competency and training (2011) gave a detailed need for budgetary controls as analyzed thus Budgetary control integrates the organization's strategic planning with budgets and processes of cost control, identifies the budgeting / financial skills required for better decision making, whether for continuing business or project or a new business venture, identifies sources of financial and business data that provide insights into business and financial strategies when converted into budgets , explore traditional versus innovative budgetary techniques, get to know activity based budgeting and costing , explore capital budgeting techniques and cash flows, identify key financial indicators for the business and how and when monitor them, question to the problems and limitations of budgetary control and look for alternative tools, understand the importance of balancing financial and non-financial aspects of the business, interpret budgets and performance measurements as communication tools and finally help to think pro-actively beyond budgeting. Utilization of resources. Capital and effort are used to achieve financial objectives and kept at minimal

level in any given organization. It promotes coordination and communication of all functions and activities among the various departments in an organization.

Motivation of manager through use of clearly defined objectives and monitoring of achievements through employees participating in the setting up of budgets and acting as a guide to management in the field of research and development in the future. Planning ahead gives time to take collective action which compels management to think about the future, which is probably the most important feature for nay business to succeed through increases in production efficiency, elimination of the wastes and controlling the costs.

Nwankwo (2010) contend that budgetary control establishes the system of control if plans are reviewed regularly against actual as well as transferring authority to individual managers for decisions. It provides a basis of performance appraisal, that is, variance analysis where actual performance is measured and assessed against the budget plan.

Budgetary control is a subject to human judgment, interpretation and evaluation. The system necessitates forecasting which is surrounded with the risks of future uncertainties. It requires good and adequate standards and in some cases these are hard to develop at the same time, it requires skills, experience, and expenditure of time, money and effort to make this system to work successfully.

Krishna (2010) stipulated that the biggest limitation of traditional budgetary control is that focuses primarily on expenses, paying little attention to the results obtained as the result of the expenses incurred. For example, the marketing manager may fail to cash on an opportunity to sell more by increasing the travelling of his sales persons because that will lead to travel expenditure exceed the budget.

Another common limitation of budgetary control is related to the way budgets are finalized. In many organizations the budgets are often prepared on the basis of past performance rather than the future requirements. This tends to create a false feeling of planned working, when in reality the organization is only drifting along with the flow of past trends. Set in stone. Managers may be constrained by the original budget (e.g. make no attempt to spend less than maximum or exceed target income).Time consuming process may deflect managers from their prime responsibilities to running the business.

Budgets are crude tools in improving performance. Poor performance not always may change after applying budgets cut as a disciplinary action. Sometimes budget increase could be the answer for improving performance. Efficiency is determine by observing performance output and outcome achieved considering the number of people involved in the process (productivity per person) and cost data (capturing direct cost as well as indirect).

Monaheng (2012) suggests that when budgetary control is high, budgetary participation should increase accordingly. When budgeting control is riding subordinates would want to know assessment criteria in details. Therefore, as the budgetary control increases, budgetary participation of subordinates is also expected to increase. He advocates that budgetary participation is an important moderating variable in the relations between type of budgetary control and subordinate's performance. Brownell (1982) findings, budget application that includes budgetary control have no direct effect on performance, while budgetary participation affects performance directly and negatively. But in case where budgetary control is high, there is a meaningful positive relation between performance and budgetary participation.

Differing from Brownell and Dunk (2011) the study conducted by Otley and Pollanen (2010) reveals that budgetary participation, control and task ambiguity directly affects performance negatively but in situations where they combined interaction of variables, the effect differ. According to the study, while budgetary participation, control and task ambiguity affect performance negatively, in situations where budgetary control is high, participation makes positive contribution to performance. One of the reasons for this increase in performance could be related to procedural justice, since budgetary control enables subordinates to participate more in budgetary process, their perception of procedural justice is positively affected by budgetary control.

Budgetary control is a technique of managerial control in which all operations are planned in advance in the form budgets and actual results are compared with budgetary standards. An effective system of budgetary control manages to plan and control the use of resource in a systematic and logical manner. Financial objectives and constraints should be communicated to managers of budget centers and regular monitoring keeps management informed of progress towards objectives (Pandey, 2013).

Constance (2010) contend that prior to erecting a new plant or taking on a new project, prudent managers conduct a cost-benefit analysis as a means of evaluating all the potential costs and revenues that may be generated if the project is completed. The outcome of the analysis will determine whether the project is financially feasible or if another project should be pursued. The first step in the process is to compile a comprehensive list of all the costs and benefits associated with the project or decision. Costs should include direct and indirect costs, intangible costs, opportunity costs and the cost of potential risks. Benefits should include all direct and indirect revenues and intangible benefits, such as increased production from improved employee safety and morale, or increased sales from customer goodwill. Joreme (2011) further contend that a common unit of monetary measurement should then be applied to all items on the list. Care should be taken to not underestimate costs or overestimate benefits. A conservative approach with a conscious effort to avoid any subjective tendencies when calculating estimates is best suited when assigning value to both costs and benefits for the purpose of a cost-benefit analysis. The final step is to quantitatively compare the results of the aggregate costs and benefits to determine if the benefits outweigh the costs. If so, then the rational decision is to go forward with project. In not, a review of the project is warranted to see if adjustments can be made to either increase benefits and/or decrease costs to make the project viable. If not, the project may be abandoned.

Johnson and Aggarwal (2015) argued that traditional measures of liquidity are in lack of expressing the effects of cash flows; hence, the effectiveness (and quality) of working cash management practices in terms of firm profitability should be revised by components of cash conversion cycle. In a study by Myers (2003), about working capital management practices in retailing firms, it has been concluded that there is a reverse relationship between cash management cycle and profitability. However, Soenen (1993) contradicts the same idea as he noted that in case of overlooking industrial differences, there does not exist any statistically constant relationship between cash conversion cycle and profitability. However, in case of considering industrial differences, the relationship between the mentioned variables has shown dissimilarities across industries as positive in some industries and negative in others.

2.3.2 Effect of cost allocation on profitability of organizations

Joreme (2011) contend that the core components of a cost allocation system consist of a way to track which organizations provides a product and/or service, the organizations that

consume the products and/or services, and a list of portfolio offerings (e.g. service catalog). Depending on the operating structure within a company, the cost allocation data may generate an internal invoice or feed an ERP system's chargeback module. Accessing the data via an invoice or chargeback module are the typical methods that drive personnel behavior. In return, the consumption data becomes a great source of quantitative information to make better business decisions. Today's organizations face growing pressure to control costs and enable responsible financial management of resources. In this environment, an organization is expected to provide services cost-effectively and deliver business value while operating under tight budgetary constraints.

Kaplan and Cooper (2015) argued that an effective cost allocation methodology enables an organization to identify what services are being provided and what they cost, to allocate costs to business units, and to manage cost recovery. Under this model, both the service provider and its respective consumers become aware of their service requirements and usage and how they directly influence the costs incurred. This information, in turn, improves discipline within the business units and financial discipline across the entire organization. With the organization articulating the costs of services provided, the business units become empowered and encouraged to make informed decisions about the services and availability levels they request. They can make trade-offs between service levels and costs, and they can benchmark internal costs against outsourced providers.

Constance (2010) state that every organization must define their costs, like how funding runs through the organization, who touches it, what they do and how they do it serves as a foundation for this understanding. According to the Office of Management and Budget's Uniform Guidance, there are only three types of costs indirect, Indirect-Admin (Overhead) and Direct. By correctly defining and allocating costs, true cost of service can be fully captured. Direct costs - are those that can be associated specifically to a final cost objective.

Constantinides (2013) argued that indirect costs - are things that you need to do for the sake of the organizational health & operations, but don't tie back to a specific program. For instance, the actual time (resources) that need to be dedicated when working with your Internet provider to fix the organization's connection is important, but it ‘s unlikely that the time spent can be tied to one particular function in a program. Indirect-Admin (Overhead) costs - are defined as those that are not direct but are necessary for the immediate support of the program. Indirect-Admin costs or overhead are very important to nonprofits since unlike

government, they do not necessarily have separate buckets of funding. If direct costs are the foundation, the Overhead costs are one touch away. So, when you are working on managing a program, leading those working for a program in their work or simply accounting for program expenses and revenues, you are only one touch away and are, in effect, performing direct activities. These activities can be attributed to your Direct Costs for purposes of expense reimbursement.

Yeng (2010) argued that cost allocations are sometimes made to influence management behavior and thus promote goal congruence and managerial effort. Consequently, in some organizations there is no cost allocation for legal or internal auditing services or internal management consulting services because top management wants to encourage their use. In other organizations there is a cost allocation for such items to spur managers to make sure the benefits of the specified services exceed the costs.

Danladi (2012) prrovided that costs are allocated to products and projects to measure inventory costs and cost of goods sold. These allocations frequently service financial accounting purposes. However, the resulting costs are also often used by managers in planning, performance evaluation, and to motivate managers, as described above. To justify costs or obtain reimbursement. Sometimes prices are based directly on costs, or it may be necessary to justify an accepted bid. For example, government contracts often specify a price that includes reimbursement for costs plus some profit margin. In these instances, cost allocations become substitutes for the usual working of the marketplace in setting prices.

Stefania and Sgârdea (2009) argued that costs to be allocated are traced to cost pools, preferably keeping variable costs and fixed costs in separate pools. Fixed costs of service departments should be allocated using predetermined monthly lump sums for providing a basic capacity to serve. Variable costs should be assigned by using a predetermined standard unit rate for the services actually used. Often it is best to allocate only those central costs of an organization for which measures of usage by departments are available. Service department costs can be allocated using either the direct method or the step-down method.

Regina (2012) contend that joint costs are often allocated to products for inventory valuation and income determination using the physical-units or relative-sales-value method. However, such allocations should not affect decisions. Activity-based costing is growing in popularity.

It first assigns costs to the activities of an organization. Then costs are traced to products or services based on cost drivers that measure the causes of the costs of a particular activity.

According to Jensen (2010) monitoring of costs can also be interpreted to enjoy private benefits of control even though they do not consider the effect of outsiders having voting stock. The private benefits literature extends the potential agency problem to include shareholders as well. The private benefits may include for example, pure monetary payments, higher salaries for board representation or underpriced services and goods for corporate owners. They can also be non-pecuniary, such as control amenities or synergies in production. Insider owners, in turn, could get private benefits from increased discretion over the firm's decisions. Naturally, the individual characteristics of the shareholders and the firm determine the potential for having these private benefits (Tim, 2011).

In a article to the market for corporate control literature, Stulz (2015) has argued that due to its discouraging effect on possible takeovers, managerial shareholdings have a nonlinear relationship with firm value. In the monitoring model by Stulz, the premium paid to get a control over a firm increases, but the probability of the takeover decreases with higher managerial shareholdings. The effect of increasing insider shareholding on costs was already discussed in detail in the previous section; as the managers bear larger fraction of the costs they will take less and less actions causing agency costs. But why would a more concentrated outside ownership lower costs? The monitoring meant here is not simply observing the managers' actions, but also figuring out their consequences in an uncertain world and actively participating in corporate decision making (Reen, 2013).

2.3.3 Effect of cost monitoring and control on profitability of organizations

Monitoring and control of costs by outside shareholders is likely to decrease the costs created by the manager as it limits her discretion, but is unlikely to eliminate them completely (Danladi, 2012). However, the owner-manager cannot escape bearing the ultimate price for the agency costs as she will bear the wealth effects on the value of her equity share, if the market anticipates the agency costs generated by her actions. For the empirical part, the idea that the markets anticipate agency costs is a crucial assumption, as we will look at the effect of ownership structure on equity values. Furthermore, the manager then has an incentive to try to limit agency costs (Jensen and Meckling, 2014).

Even though Jensen and Meckling (2014) present a special case in their paper, it demonstrates the conflict between managers and owners well. Naturally, we have left out any effects of the monitoring or the bonding (compensation tied to firm value, etc.) activities taken by the outside investors or the managers that would help to reduce costs. Nevertheless, even if most of the assumptions are loosened, the conflict of interest between owners and managers is relevant as long as the owners cannot observe the managers actions or their consequences completely. An example of what happens, when the monitoring by the external shareholders is taken into account can be found from Pagano and Röell (2015). They show that the owner-manager prefers more dispersed holdings by outsiders due to lesser monitoring and thus higher discretion to spend firm's resources on non-pecuniary benefits.

The main point of Jensen and Meckling (2014) monitoring model is that there is a tradeoff in the form of costs between having more or less insider ownership. Business costs are created whenever the manager also controls an outsider's investment besides her own, because there is a fundamental conflict of interest. This is the same conclusion Berle and Means argued already in 1932 by saying that the separation of ownership and control in large public companies created room for managers to use the wealth of the companies to their own advantage. Jensen and Meckling formulated a theory of ownership structure based on this problem of agency. Because of the conflict of interest between managers and outside shareholders, firm performance is not independent of ownership structure (Jensen, 2010).

Jensen (2010) also indicated in his article how debt financing affects the manager's incentives. Their main conclusions are similar to those with outside equity. Higher debt levels increase the moral hazard (incentive to take risk) of the manager, and the cost of taking extra risk (and the measures designed to limit it) can be thought as costs. These costs some times are borne by the firm as increased cost of borrowing. Jensen and Meckling further argue that due to agency problems the probability distribution of the future cash flows is not independent of the level of debt a company holds higher levels of debt lead to more risk taking and thus to higher variance in the returns. The levels of outside equity and debt are determined simultaneously as to minimize the total agency costs (and hence to maximize firm value) composed of agency costs on outside equity and agency costs on debt. The detailed exposition of their ownership structure model is left aside; the conclusions presented above

nevertheless apply to it as well. What is important here is that there are different kinds of outside investors that are affected by agency problems and bear different sets of costs.
The most often stated explanation is that shareholders with only small stakes in a company fail to monitor management effectively. A more concentrated ownership, in the form of large shareholders, creates more effective monitoring. There are two important obstacles for effective monitoring of the management that large shareholders may help to solve: they may reap enough benefits by staying informed that it exceeds the costs of obtaining the needed information and they may also have a sufficiently large share of the votes that they can effectively influence corporate outcomes (even with a minority holding). Small shareholders have trouble doing this collectively as they internalize only a small part of the possible gains by themselves and suffer from free-rider problems.

Jensen and Fama (2003) also make a point that, when the decision making is in the firm is diffuse, costs can then be reduced by separating the management (initiation and implementation) and control (ratification and monitoring) of decisions. In smaller firms this can mean that managers do the management of decisions and shareholders the controlling of decisions, but in larger firms diffusion and separation of both at different levels of the organization are needed. There are of course many other factors besides the nature of decision making information that can tilt the balance to the side of separation of ownership and control. An obvious reason for this is firm size found also in Jensen and Meckling, (2013) paper, otherwise the firm size is constrained by the owner-managers wealth (and ability lend) and the possible benefits offered by economies of scale are left unused.

Easterbrook and Fischel (2014) have analyzed the voting structure of firms and the free-rider problems large shareholders may help to overcome in more detail. The important factor for the large shareholders to have an effect is that monitoring is costly, consuming resources such as time and money. The monitoring meant here is not simply observing the managers' actions, but also figuring out their consequences in an uncertain world and actively participating in corporate decision making. In terms of Jensen and Meckling (2013), one can think that agency costs are decreasing in the share the largest owner (or largest owners) holds due to increased efficiency in monitoring. There are formal models explaining why the existence of a large block holder may increase corporate performance (Zeckhauser and Pound, 2014).

2.4 Related Studies

Emengini (2014) carried out a study title 'product cost management in relation to Activity-Based costing (ABC) by manufacturing companies in a developing country like Nigeria. Data were collected from 58 sampled companies using questionnaire and analyzed using student's t-test and Multivariate analysis variance (MANOVA). The study disclosed that product cost management through application of ABC and traditional costing is geared towards cost reduction and are good strategic cost techniques in controlling cost. They further review that there is no statistically significant difference in cost reduction attained by ABC over Traditional costing, but though ABC tend to have higher effect and profit realized of ABC is equally higher. Base on the findings, the study recommends that manufacturing companies in developing countries should develop a good tone of management and core values that will promote the utilization of ABC in their costing system, and the use software to facilitate application of ABC. The research is limited to South East of Nigeria.

Horngren (2005) argues that that Activity-Based costing (ABC) when used as part of the strategic planning process may provide useful insights. An ABC system is a system that first accumulates overhead costs for each of the activities of the area being cost, and then assigns the costs of activities to the products, services or other cost objects that require that activity. Greater diversity in the types of products and services as well as customers classes results in greater business operating complexity. Therefore the consumption of a company's shared resources also varies substantially among products and customers. New products techniques have increased the proportion of indirect costs. Indirect costs are far more important in today's world class manufacturing environment.

Deloof (2003), also disclosed relationships between cost control and profitability by dividing cash conversion cycle into its components (inventory, accounts receivables and accounts payables periods). Results of the study have concluded that increases in all of these periods affect profitability negatively. Findings by Lazaridis and Trifonidis (2014) also noted that there existed a relationship between cash management and profitability. Cash mismanagement affects profitability negatively. According to the findings of another study from a different perspective, it has been concluded that the effect of cash conversion cycle on profitability is stronger than the effect of current ratio on it (Eljelly, 2014).

According to Kakuru (2001) if cost management concentrates on boosting the liquidity, high balances of cash will be maintained. However the higher these balances are, the more profitability will be fore gone. This is risky especially to people who expect profitable ventures. On the other hand if cash management seeks to boost profitability, investments are highly risky but profitable and the business is threatened as there will be no cost to meet the operating obligations as they fall due. If care is not taken profitability will be short lived as the commercial bank will be forced to close due to illiquidity.

Stefania and Sgârdea (2009) contend that the mobilization of domestic and foreign resources has become problematic due to several year of dictatorial misrule, the business environment continues to be severely impacted by widespread religious, cultural and political disturbance in Nigeria, infrastructural by all intents and purposes, remain to be grossly inadequate and in a poor state, with the cause by supply of power leading to serious disruptions in production are constituting serious strains in the company's finances, with greater reliance been placed on the use of private generating facilities. However, the productivity of the manufacturing sector is also associated with high production cost related with high tariffs, increase in cost of energy, rising cost of imported inputs as a result of continues depreciation of naira exchange rate, and rising rate of inflation. Furthermore, the net import requirement of the manufacturing sub- sector grew rapidly as more than 60% of the raw materials consumed is imported due to lack of economics of scale, difficulty in obtaining technical expertise, inadequate research into local substitute and cost of production of locally sources material.

2.5 Research Gaps

Basing on the reviews of related literature, the following gaps were identified; a number of studies reviewed were carried out in different oraginisations and countries which posses the geographical gap which this study intended to bridge. Similary, the constructs used in other countires were not exactly the same as those used in this study. Foristance in Lazaridis and Trifonidis (2014) argued that there existed a relationship between cash management and profitability. Cash mismanagement affects profitability negatively. According to the findings of another study from a different perspective, it has been concluded that the effect of cash conversion cycle on profitability is stronger than the effect of current ratio on it (Eljelly, 2014). The Agency theory by Adam etal (2011) who had investigated the influence of internal conrol on financial performance of Micro-finance Institutions in Central Uganda.

According to Jensen (2010) he argued that monitoring of costs can also be interpreted to enjoy private benefits of control even though they do not consider the effect of outsiders having voting stock. The private benefits literature extends the potential agency problem to include shareholders as well. The private benefits may include for example, pure monetary payments, higher salaries for board representation or underpriced services and goods for corporate owners, but however Jensen's argument did not indicate the measures to be undertaken in order to minimize costs.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the research design, the research population, and the sample size, sampling procedures, research instruments, validity and reliability of instruments, data gathering procedures, data analysis, ethical considerations and limitations of the study.

3.1 Research design

This study employed a cross-sectional research design. Cross-sectional design allowed the study of the population at one specific time and the difference between the individual groups within the population compared (Mugenda & Mugenda, 2003). The study also used survey design, this was used to collect data from a large sample of respondents. This study was also descriptive whereby qualitative and quantitative research approaches were used to gain insight to variables, it was descriptive in that it described the characteristics of respondents. Qualitative approach included the use of interviews, while quantitative approaches involved use of descriptive statistics that were generated inform of frequency tables, graphs, and Charts. Qualitative and quantitative approaches were adopted to enable the researcher to get and analyze information concerning respondents' opinions about the impact of cost control and profitability in manufacturing firms in Haegeisa Samalia.

3.2 Population of the study

Mugenda and Mugenda (2003) defined population as a set of people, services, elements, and events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. This study was conducted in manufacturing firms of Hargeisa and therefore, the population of this study included the support staff, middle managers and administrators from the three manufacturing firms of Ilo Tango, Maaxda And Cocacola which had a population of 280 employees in the category of support staff, middle managers and administrators. The respective populations of the individual manufacturing firms were presented in table 3.3 below. This population was chosen because of having adequate data concerning cost control and profitability trends in the organization (Human resource Manual for the Manufacturing organizations for April, 2017).

3.3 Sample Size

A sample is the subset of a population that was used to represent the entire group as a whole. Based on the study population, the researcher selected respondents using Krejucie and Morgan table of 1970 (Amin, 2005).

3.3.1 Sampling Procedure

Table 3.3 Showing sample size and sampling techniques

No	Category of organization	Population	Sample Size	Sampling technique
1	**Ilo Tango**			
	Support staff	76	44	Simple random Sampling
	Middle mangers	11	06	Simple random Sampling
	Administration	10	06	Simple random Sampling
	Sub total	**97**	**56**	
	Maaxda			
	Support staff	72	42	Simple random Sampling
	Middle mangers	09	05	Simple random Sampling
	Administration	12	07	Simple random Sampling
	Sub-total	**93**	**54**	
	COCA COLA			
	Support staff	68	39	Simple random Sampling
	Middle mangers	08	05	Simple random Sampling
	Administration	14	08	Simple random Sampling
	Sub total	**90**	**52**	
	Total	**280**	**162**	

Source: Human resource Manual, April (2017) for the Manufacturing organizations

3.3.2 Sample Technique

According to Sekaran (2003), sampling is the process of choosing the research units of the target Population, which are to be included in the study. The study used simple random sampling during the process of data collection from the study respondents. The study applied purposive sampling technique because it gave all the people the chances of being selected. Simple random sampling was used to select all the study respondents during data collection process in the study area.

3.4 Data sources

The researcher gathered information through the primary sources.

Primary source

This enabled the researcher to attain information from the field. Data collection in this case was done through the use of questionnaire. Data was collected from people's opinions, ideas through questioning and interviewing the study respondents.

3.5 Data collection instrument

3.5.1 Questionnaire

A questionnaire was the major instrument used for data collection. The questionnaires was preferred for this study because it enabled the researcher reach a larger number of respondents within a short time, thus made it easier to collect relevant information. The first section in the questionnaire was the face sheet, to collect data on profile of respondents. The second section in the questionnaire was cost control, the third section of the questionnaire had questions on profitability of manufacturing firms. All the questions were Likert Scaled on four points ranging from 1= strongly disagree, 2 = disagree, 3 = agree, and 4 = strongly agree.

The questionnaires contained close-ended questions to collect quantifiable data relevant for precise and effective correlation of research variables. They was also be preferred to save time, enabled respondents to easily fill out the questionnaires and keep them on the subject and relatively objective.

3.5.2 Interview Guide

The interview was used to collect information about the study from the selected administrators and managers of manufacturing firms. The respondents were asked questions including opinions on the subject matter.

3.6 Validity and Reliability

3.6.1 Validity

The researcher ensured the validity of the instrument by face validity analysis using research supervisors who went on checking if all the items constructed could help achieve the aim of

the study. This was done by use of content validity index, and then a content validity index (CVI) was computed using the following formula:

$$CVI = \frac{No.of questions declared valid}{total No.of questions in the questionnaire}$$

$$CVI = \frac{36}{38}$$

CVI= **<u>0.95</u>**

The CVI was 0.95 above 0.70 which is the minimum value always based on to declare a research instrument valid.

3.6.2 Reliability

To ensure the reliability of the instrument, the researcher used the test-retest method. The questionnaire was given to 10 people who were part of the target population and after two weeks, the same questionnaire was given to the same people and the Cronbatch Alpha was computed using SPSS.

Table 3.1: showing reliability test result

Reliability Statistics

Cronbach's Alpha	N of Items
.886	36

The research instrument was declared reliable since the Cronbach's Alpha value was above 0.75 which is the minimum Cronbach's Alpha value required to declare an instrument reliable.

3.7 Data Gathering Procedures

Before the administration of the questionnaires

Before the administration of the questionnaires the researcher took an introductory letter from the College of Economics and Management (CEM), the researcher had to first seek authorization from the proposed respondents to conduct research and review the questions to avoid errors and ensured that only qualified respondents are approached.

During the administration of the questionnaires

The respondents were requested to sign and answer the questionnaires. The researcher emphasized retrieval of the questionnaires within three days from the date of distribution. And lastly, all returned questionnaires were checked if all are answered.

After the administration of the questionnaires

The data gathered was collected, coded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS).

3.8 Data Analysis

3.8.1 Qualitative data

After collecting data, it was processed and analyzed. The qualitative data was analyzed by sorting out major themes, concepts and ideas that relate to the variables of the study so as to make meaning and draw conclusions. All the relevant information was put in place to ensure that the necessary information is available before data analyzed deigns.

3.8.2 The quantitative data

The data collected was entered into statistical package for social scientists coded and all the errors were removed, and the results attained on mean and standard deviations. The data on mean attained a numerical scale that was designed based on highest value minus lowest and divided by highest value in the likert scale. The interpretations for the data for both the independent and dependent variables were interpreted using the following mean ranges:

Mean Range	Response Mode	Interpretation
3.26 - 4.00	strongly agree	Very satisfactory
2.51 - 3.25	agree	Satisfactory
1.76 - 2.50	Disagree	Unsatisfactory
1.00 - 1.75	strongly disagree	Very unsatisfactory

The regression analysis was used to determine the effect of budget control, cost allocation and cost monitoring on profitability of manufacturing firms. The decision rule for the data analysis was based on simple regression to determine the effect of cost control on profitability of the manufacturing firms in Hargeisa the decision rule was on 0.05 level of significance.

3.8.3 Decision rule

The hypotheses were tested based on the decision rule of 0.05 level of significance. The decision to test hypothesis is on the regression coefficients (significant values, all the values that were below 0.05 level was found to be significant and the hypothesis was rejected on all the variables since they were all found to have significant value less than 0.05.

3.9 Ethical consideration

Seeking permission from area authorities to conduct research
Maintaining the privacy and confidentiality of the respondents that is to say keep their personal issues private and non disclosure of response from particular respondents to maintain integrity and also protect them from potential victimization
Maintaining honesty and avoiding exceptional and deceptive behavior such as creating false impression in the minds of participants through withholding information, establishing false intimacy or telling lies as this can potentially harm research participants.
Reported what was actually found and not manufacturing and publish dream up data and also giving due recognition to any one whose work may have been used in this research and not try to pass it as the researchers original work

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presented, analyzed and interpreted data collected from the field. Data analysis and interpretation was based on the research objectives. Below are the data presentations and analysis of research findings;

4.1 Demographic characteristics of the Respondents

Table 4.1 below showed the profile information of respondents as to gender, age, level of education, years spent in a business and position held.

Table 4.1: Demographic characteristics of the Respondents

Gender	**Frequency**	**Percent**
Male	102	63
Female	60	37
Total	**162**	**100**
Age		
20-29	37	22
30-39	62	38.3
40-49	38	23.5
50 years and above	24	14.8
Total	**162**	**100**
Education qualification		
Certificate	18	11.1
Diploma	45	27.8
Degree	78	48.1
Masters	19	11.7
Others	2	1.2
Total	**162**	**100**
Years spent working in the organisation		
Less than 1 year	16	9.9
1-3 years	34	21.0
4-6 years	87	53.7
7 years and above	25	15.4
Total	**162**	**100**
Position held		
Administrator	24	14.8
Human resource	33	20.4
Customer consultant	18	11.1
Staff	87	53.7
Total	**162**	**100**

Sources: Primary Data 2017

According to gender, results showed that 63% were male and 37% of the respondents were female. This clearly implied that majority of manufacturing firms in Hargeisa Somalia are run and dominated by men. Results in table 4.1 indicated that majority of the respondents represented in this study were between 30-39 years (38.3%), followed by respondents' age between 40-49years (23.5%), 22% were between 20-29 years and finally 14.8% were 50 years and above.

Table 4.1 also showed that majority of the respondents had attained bachelors degree (48.1%), the second group of the respondents were (27.8%) had only attained diploma as far as education is concerned, the third group (11.7%) had attained masters, 11.1% were certificate holders and only 1.2% were regarded as others who could be having professional certificates. In terms of years spent working, majority of the respondents (53.7%) had worked for 4-6 years, followed by those between 1-3 years (21%), 15.4% had worked for 7 years and above, finally 9.9% had worked for less than 1 year. This indicated that majority of these respondents had enough experience in their businesses, and therefore they could provide the researcher with the information required. With respect to position held; results indicated that majority were staffs (53.7%), 20.4% were from human resource, 14.8% were administrators and finally 11.1% were customer consultants.

4.2 Cost controls

The independent variable in this study was cost controls, this variable (IV) was broken into three constructs and these were; budget control (with seven items/questions), cost allocation (with seven questions) and cost monitoring (with seven questions). Each of these questions was based on a four point Likert scale whereby respondents were asked to rate the cost controls by indicating the extent to which they agree or disagree with each question.

Table4.2: Cost controls

Budget control	Mean	Std.	Interpretation	Rank
There is effective budgeting of preliminary cost establishment	3.28	1.012	Very satisfactory	1
There is effective budgetary planning for the materials required	3.02	1.125	Satisfactory	2
The day to day activities are effectively budgeted for	2.91	1.062	Satisfactory	3
There is an accountable budgetary framework	2.88	1.056	Satisfactory	4
The management teams usually okays the budgeting process	2.81	.952	Satisfactory	5
There is effective budgeting at departmental levels	2.74	1.165	Satisfactory	6
The manufacturing costs are effectively determined before production	2.36	1.265	Unsatisfactory	7
Average mean	**2.86**	**.69300**		
Cost allocation				
The management provide avenues and time schedule for the costs allocated	3.34	1.023	Very satisfactory	1
There is a system for effective cost tracking for efficiency	3.01	1.126	Satisfactory	2
There is established stakeholder stance in cost allocation	2.86	1.139	Satisfactory	3
There is organization employ a steady and highly established cost allocation mechanism	2.73	1.058	Satisfactory	4
There is effective determination of unit cost at levels of operations	2.66	.973	Satisfactory	5
The organizational status is sufficient for determining the direction of cost applications	2.57	1.111	Satisfactory	6
The management teams determine the efficiency and effectiveness of costs allocated	2.48	1.035	Unsatisfactory	7
Average mean	**2.80**	**.66143**		
Cost monitoring				
The management employees monitor the establishment of costs	3.26	1.053	Very satisfactory	1
The organizations employee systems for effective cost control and operations	2.86	1.054	Satisfactory	2
The organizational members provide for the operational capacity	2.81	1.076	Satisfactory	3
The companies have effective cost monitoring teams in the organization	2.77	1.037	Satisfactory	4
There is effective assessment of cost requirements for the organizations	2.60	1.139	Satisfactory	5
There is effective cost control by management of this organization	2.54	.968	Satisfactory	6
There is effective cost control monitoring in the organization	2.41	1.055	Unsatisfactory	7
Average mean	**2.75**	**.67688**		
Overall mean	**2.79**	**.62300**		

Sources: Primary Data 2017

Results in table 4.2 indicated that cost controls among manufacturing firms in Hargeisa Somalia was rated satisfactory and this was indicated by the overall mean of 2.79, implying that the owners of manufacturing firms in Hargeisa Somalia fairly manage their costs well. With respect to budget control; results indicated that budget control was rated high and this was indicated by the average mean (mean=2.86), implying that cost budgting is fairly done well by the Manufacturing firms in Hargeisa. Results still indicated that there is effective budgeting of preliminary cost establishment (mean=3.28), there is effective budgetary planning for the materials required (mean=3.02), the day to day activities are effectively budgeted for (mean=2.91), there is an accountable budgetary framework (mean=2.88), the management teams usually okays the budgeting process (mean=2.81), there is effective budgeting at departmental levels (mean=2.74), however the manufacturing costs are not effectively determined before production (mean=2.36).

With respect to cost allocation; results in table 4.2 indicated that six items were used to measure this construct and it was also rated satisfactory and this was indicated by the average mean of 2.80, implying that cost allocation is fairly carried out well among manufacturing firms in Hargeisa Somalia. The responses still show that; the management provide avenues and time schedule for the costs allocated (mean=3.34), there is a system for effective cost tracking for efficiency (mean=3.01), there is established stakeholder stance in cost allocation (mean=2.86), there is organization employ a steady and highly established cost allocation mechanism (mean=2.73), there is effective determination of unit cost at levels of operations (mean=2.66), the organizational status is sufficient for determining the direction of cost applications (mean=2.57), but however the management teams do not determine the efficiency and effectiveness of costs allocated (mean=2.48).

With respect to cost monitoring; results in table 4.2 connoted that this was also measured using seven items (questions) and it was rated high (mean=2.75), implying there exists a good cost monitoring system among the manufacturing firms in Hargeisa Somalia. Still results indicated that; the management employees monitor the establishment of costs (mean=3.26), the organizations employee systems for effective cost control and operations (mean=2.86), the organizational members provide for the operational capacity (mean=2.81), the companies have effective cost monitoring teams in the organization (mean=2.77), there is effective assessment of cost requirements for the organizations (mean=2.60), there is effective cost control by management of this organization (mean=2.54), however there is no effective cost control monitoring in the organization (mean=2.41).

4.3 Profitability

Profitability is the dependent variable in this study and was broken into two constructs and these are; profitability (with five questions) and sales growth (with five items). Each of these questions was based on a four point Likert scale and respondents were asked to rate profitability by indicating the extent to which they agree or disagree with each question, their responses were analyzed using SPSS and summarized using means and standard deviations as indicated in tables 4.3;

Table4.3: Profitability

Gross profit margin	**Mean**	**Std.**	**Interpretation**	**Rank**
The profit margin is appropriate to the expectations of the owner(s)	2.90	1.053	Satisfactory	1
You always plan and meet the profit margin	2.73	1.053	Satisfactory	2
Survival of this business has been due to the profits you always earn	2.65	1.165	Satisfactory	3
You always plan to increase profit margin in the business	2.60	1.048	Satisfactory	4
Your profit margin has always exceeded the expenditure	2.41	1.037	Unsatisfactory	5
Average mean	**2.66**	**.59070**		
Return on assets				
The current assets are generative of more profits in your business	3.32	.863	Very satisfactory	1
The net operating assets sufficiently support your daily operations	2.84	1.083	Satisfactory	2
The return on assets is higher than the costs of operation in the previous period	2.52	1.079	Satisfactory	3
There has been gained profits on the capital employed by business	2.47	1.107	Unsatisfactory	4
Your business has attained expansion because of high returns on assets	2.42	1.107	Unsatisfactory	5
Average mean	**2.72**	**.67783**		
Returns on invested capital				
Your business has reached a point at which returns on invested capital are equal to expenses	3.29	.910	Very satisfactory	1
The state of invested capital in your business is steadily growing every day	2.79	.971	Satisfactory	2
Your net returns on invested capital are high	2.72	1.128	Satisfactory	3
Your returns on invested capital are higher than the cost of goods sold per month	2.64	.974	Satisfactory	4
Shareholders of this business receive relatively high returns on invested capital	2.09	1.123	Unsatisfactory	5
Average mean	**2.70**	**.59182**		
Overall mean	**2.69**	**.44560**		

Sources: Primary Data 2017

Results in table 4.3 indicated that the level of profitability is high and this was indicated by the overall mean of 2.69, which implies that manufacturing firms in Hargeisa Somalia have resources which can make them financially perform well. With respect to gross profit margin; this was the first construct on the dependent variable and was measured using five items/questions and it was rated satisfactory (average mean=2.66), implying that the manufacturing firms in Hargeisa Somalia always earn relatively high profits. Still results indicated that the profit margin is appropriate to the expectations of the owner(s) (mean=2.90), always plan and meet the profit margin (mean=2.73), survival of this business has been due to the profits you always earn (mean=2.65), always plan to increase profit margin in the business (mean=2.60), but however the business the profit margin has not always exceeded the expenditure (mean=2.41).

Concerning returns on assets; results in table 4.3 indicated that this construct was rated satisfactory and this was indicated by the average mean of 2.72. Still results indicated that the current assets are generative of more profits in your business (mean=3.32), the net operating assets sufficiently support your daily operations (mean=2.84), the return on assets is higher than the costs of operation in the previous period (mean=2.52), however has been no gained profits on the capital employed by businesses for the last few months (mean=2.47) and they have not attained expansion even though they have got high returns on assets (mean=2.42).

With respect to returns on invested capital; results in table 4.3 indicated that this construct was rated satisfactory and this was indicated by the average mean of 2.70. Still results indicated that the business has reached a point at which returns on invested capital are equal to expenses (mean=3.29), the state of invested capital in your business is steadily growing every day (mean=2.79), the net returns on invested capital are high (mean=2.72), the returns on invested capital are higher than the cost of goods sold per month (mean=2.64), however shareholders of this business receive relatively high returns on invested capital (mean=2.09).

4.4 Objective one; effect of budget control on profitability of manufacturing firms in Hargeisa Somalia

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.593[a]	.352	.348	.35984
a. Predictors: (Constant), Budget control				

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.974	1	10.974	84.756	.000[a]
	Residual	20.199	156	.129		
	Total	31.174	157			
a. Predictors: (Constant), Budget control						
b. Dependent Variable: Profitability						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.607	.121		13.232	.000
	Budget control	.380	.041	.593	9.206	.000
a. Dependent Variable: Profitability						

Regression analysis results in the Model Summary table revealed that budget control accounted for 35.2% on profitability of manufacturing firms in Hargeisa Somalia and this was indicated by r-squared of 0.352 implying that budget control contribute to the profitability of manufacturing firms in Hargeisa Somalia.

The ANOVA table indicated that budget control significantly affects the profitability and this was indicated by the F-value=84.756 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that budget control highly contributes to the profitability of manufacturing firms in Hargeisa Somalia.

The coefficients table indicated that considering the standard error, budget control significantly influence the profitability of manufacturing firms in Hargeisa Somalia (β=0.380, Sig=0. 000).

Testing for hypothesis

The hypothesis was rejected since the significant value was found to be less than 0.05 (Sig=0. 000).

The study results from the interview show that *"Budgetary controls are faced with a series challenges that include the poor planning and forecasting due to lack of appropriate tools for usage, the lack of highly educated planners that can budget well, difficulty in establishing some variables costs for purposes of ascertaining value to the units. The budgetary control provides a unit of analysis for effective development in the operations, the budgetary means have been provided for means of development".*

4.5 Objective two; the effect of cost allocation on profitability of manufacturing firms in Hargeisa Somalia

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.562[a]	.315	.311	.36536
a. Predictors: (Constant), Cost allocation				

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.530	1	9.530	71.395	.000[a]
	Residual	20.691	155	.133		
	Total	30.221	156			
a. Predictors: (Constant), Cost allocation						
b. Dependent Variable: Profitability						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.646	.127		12.991	.000
	Cost allocation	.373	.044	.562	8.450	.000
a. Dependent Variable: Profitability						

Regression analysis results in the Model Summary table indicated that the cost allocation accounted for 31.5% on profitability of manufacturing firms in Hargeisa Somalia and this was indicated by r-squared of 0.315 implying that cost allocation significantly contributes 3.7% on the profitability of manufacturing firms in Hargeisa Somalia.

The ANOVA table indicated that cost allocation significantly affects the profitability and this was indicated by the F-value=71.395 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that cost allocation highly affects the profitability of manufacturing firms in Hargeisa Somalia.

The coefficients table indicated that considering the standard error, cost allocation significantly affects the profitability of small scale businesses (β=0.373, Sig=0. 000).

Testing for hypothesis

The hypothesis was rejected since the significant value was found to be less than 0.05 (Sig=0. 000).

The interview responses also revealed that;

"Cost allocation supports all three key purposes of costing. There are usually significant differences in cost measurement between cost accounting for external reporting and costing for managerial purposes, the latter requiring a broader perspective that measures how resource expenses are consumed and reported as costs of the organization's activities and outputs. For costing purposes, it includes collecting resource data and valuing resource quantities in one of two ways: by breaking down general ledger expenses and matching them with resource information to calculate costs; or by keeping resource quantities and their values (from source documents such as a payroll or accounts payable transaction) together as they pass through consumption relationships in the supply chain".

4.6 Objective three; effect of cost monitoring on profitability of manufacturing firms in Hargeisa Somalia

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.614[a]	.377	.373	.35227
a. Predictors: (Constant), Cost monitoring				

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.623	1	11.623	93.669	.000[a]
	Residual	19.234	155	.124		
	Total	30.858	156			
a. Predictors: (Constant), Cost monitoring						
b. Dependent Variable: Profitability						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.601	.117		13.716	.000
	Cost monitoring	.399	.041	.614	9.678	.000
a. Dependent Variable: Profitability						

Regression analysis results in the model Summary table indicated that the cost monitoring significantly affects profitability of manufacturing firms in Hargeisa Somalia at a rate of 37.7% and this was indicated by r-squared of 0.377, hence implying that cost monitoring significantly influences the profitability of manufacturing firms in Hargeisa Somalia.

The ANOVA table indicated a positive significant effect cost monitoring has on profitability and this was indicated by the positive F-value=93.669 and Sig-value=.000, since the sig. value (0.000) was less than 0.05 and which is the maximum level of significance required to declare a significant effect. This implies that cost monitoring highly affects the profitability of manufacturing firms in Hargeisa Somalia. Still this implied that high levels of cost monitoring can improve the level of profitability and poor cost monitoring measures reduce it.

The coefficients table indicated that considering the standard error, cost monitoring significantly affects the profitability of small scale businesses (β=0.399, Sig=0. 000).

Testing for hypothesis

The hypothesis was rejected since the significant value was found to be less than 0.05 (Sig=0. 000).

Further data collected using the interview guide provided that

"There are earned value management that incorporates, the assessment of the value for the organizations output functions. The forecasting tools used in estimating the costs of the future based on the inflation and level of economic development in the country. The complete performance index, variance analysis used to evaluate the variances that occurs in the business environment for the operational capacity and mix".

CHAPTER FIVE

DISCUSSIONS, CONLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter focuses on the findings, conclusions; recommendations based on the conclusions of this study and suggested areas that need further research following the study objectives;

5.1 Discussions

This study was set to find out the relationship between cost controls and profitability in the Manufacturing firms in Hargeisa Somalia, three specific objectives guided this study and these were i) determining the effect of budget control on profitability of manufacturing firms in Hargeisa Somalia; ii) examining the effect of cost allocation on profitability of manufacturing firms in Hargeisa Somalia and (iii) to establish the effect of cost monitoring on profitability of manufacturing firms in Hargeisa Somalia.

5.1.1 Objective one; the effect of budget control on profitability

The findings indicated that budget control significantly affects the profitability of manufacturing firms in Hargeisa Somalia, this effect therefore implies that budget control contribute to the profitability of Manufacturing firms in Hargeisa Somalia. This finding is in line with Bendney and Colston (2015) who argued that small business are relatively easily controlled by one person, usually the owner, but as the business expands, however, there is a tendency to split the organization into parts and employ a specialist manager to run it with a number of specialist line manager who are responsible for the operations of the particular functions. Nwankwo (2010) contend that budgetary control establishes the system of control if plans are reviewed regularly against actual as well as transferring authority to individual managers for decisions. It provides a basis of performance appraisal, that is, variance analysis where actual performance is measured and assessed against the budget plan. Even Krishna, (2010) stipulated that the biggest limitation of traditional budgetary control is that focuses primarily on expenses, paying little attention to the results obtained as the result of the expenses incurred. For example, the marketing manager may fail to cash on an opportunity to sell more by increasing the travelling of his sales persons because that will lead to travel expenditure exceed the budget.

Otley and Pollanen (2000) reveal that budgetary participation, control and task ambiguity directly affects performance negatively but in situations where they combined interaction of variables, the effect differ. According to the study, while budgetary participation, control and task ambiguity affect performance negatively, in situations where budgetary control is high, participation makes positive contribution to performance.

5.1.2 Objective two; the effect of cost allocation on profitability

The findings revealed that there is a significant effect cost allocation has on profitability of manufacturing firms in Hargeisa Somalia, this also implied that high cost allocation improves the level of profitability of Manufacturing firms in Hargeisa Somalia and poor cost allocation reduces it. This finding agrees with Kaplan and Cooper (2015) who argued that an effective cost allocation methodology enables an organization to identify what services are being provided and what they cost, to allocate costs to business units, and to manage cost recovery. Under this model, both the service provider and its respective consumers become aware of their service requirements and usage and how they directly influence the costs incurred. There are usually significant differences in cost measurement between cost accounting for external reporting and costing for managerial purposes, the latter requiring a broader perspective that measures how resource expenses are consumed and reported as costs of the organization's activities and outputs.

Yeng (2010) argued that cost allocations are sometimes made to influence management behavior and thus promote goal congruence and managerial effort. Consequently, in some organizations there is no cost allocation for legal or internal auditing services or internal management consulting services because top management wants to encourage their use. In other organizations there is a cost allocation for such items to spur managers to make sure the benefits of the specified services exceed the costs.

5.1.3 Objective three; the effect of cost monitoring on profitability

But the findings of this study proved a weak positive significant effect cost monitoring has on profitability of manufacturing firms in Hargeisa Somalia, this therefore implies that good cost monitoring increases the level of profitability of Manufacturing firms in Hargeisa Somalia and poor cost monitoring reduces it. This finding is in line with Jensen and Meckling (2014) who argued that monitoring is a tradeoff in the form of costs between having more or less

insider ownership. Business costs are created whenever the manager also controls an outsider's investment besides her own, because there is a fundamental conflict of interest. Furthermore according to Jensen (2010) monitoring of costs can also be interpreted to enjoy private benefits of control even though they do not consider the effect of outsiders having voting stock. The private benefits literature extends the potential agency problem to include shareholders as well. The private benefits may include for example, pure monetary payments, higher salaries for board representation or underpriced services and goods for corporate owners.

5.2 Conclusions

5.2.1 Objective one; the effect of budget control on profitability

According to the findings budget control has a positive significant effect on profitability of manufacturing firms in Hargeisa Somalia. Therefore budgetary control has a considerably high influence on the profitability of the manufacturing organizations, hence there is need for improving the budgetary controls to enhance profitability.

5.2.2 Objective two; the effect of cost allocation on profitability

According to the findings cost allocation has a significant effect on profitability of manufacturing firms in Hargeisa Somalia. Hence cost allocation has a high bearing on profitability of the manufacturing organizations.

5.2.3 Objective three; the effect of cost monitoring on profitability

According to the findings cost monitoring has a weak positive significant effect on profitability of manufacturing firms in Hargeisa Somalia. Therefore cost monitoring has a bearing on the profitability hence there is need for enhancing monitoring given the state of the profits though other factors complemented in the study.

5.3 Recommendation

5.3.1 Effect of budget control on profitability of manufacturing firms

The budget control was found operating though with limited capacity, there is need to enhance the budgetary controls through improving the mechanism for budgeting as the mechanism for enhancing profitability. The process of budget control in manufacturing companies should be very comprehensive covering all departments and sections as this will enable management to effectively implement budgetary controls. Manufacturing companies in Hargeisa should look at other factors that directly affect profitability. These include availability of qualified personnel to implement the budget, the level of technology applied and the effect of changes in demand.

5.3.2 Effect of cost allocation on profitability of manufacturing firms

The cost allocation appropriateness needs to be enhanced through enhancing the cost allocations mechanisms as practical situations to improve profitability. There is need for managers who are responsible for the setting cost allocation standards should be educated on the relevance for the costs of the manufacturing firms. Adherence to the standard costing information should be practiced by the top management as it is a tool for the improvement of profit in the manufacturing firms.

5.3.3 Effect of cost monitoring on profitability of manufacturing firms

The manufacturing companies need to improve the status quo on cost monitoring in order to enhance the state of monitoring aspects that negatively affect profitability. There is need to improve the stakeholders involvement in cost monitoring especially in assessing the costs involved in determining costs.

5.4 Contribution to knowledge

The following are the cost controls techniques used in maintaining the profitability of manufacturing firms in Hargeisa Somalia; budget control, cost allocation and cost monitoring. The following are the measurements of profitability in manufacturing firms in Hargeisa Somalia; gross profit margin, return on assets and returns on investment. One of the most prominent findings from this study is the fact that it has provided evidence to support the fact that cost control can improve the state of profitability of the manufacturing organizations mechanism in Hargeisa Somalia. Another important revelation that can be

attributed to this study is that it is now clear that cost control is of low nature, little is done through cost controls to improve profitability in manufacturing firms in Hargeisa Somalia. This is contrary to common belief that business operate on profits with less control on costs this could be due to the insignificant degree of the prevalence of cost controls (Kotole, 2011).

5.5 Limitations of the study

Long distance from the institution to the area of the study is one of the anticipated limitations the researcher faced. However, the researcher tried as much as possible to move to the area to collect the data in phases to ease on transport charges

Non-response to certain questions and providing of false information was another anticipated limitation to the study. This was due to the fear by some respondents that the researcher could expose their identities. However, the researcher used logical questions so that the respondents were able to release such information needed by the researcher.

5.6 Areas for further research

Prospective researchers and even students are encouraged to research on the following areas;

Cost allocation and profitability of manufacturing firms in Hargeisa Somalia

Cost monitoring and profitability of manufacturing firms in Hargeisa Somalia

The challenges facing the profitability of manufacturing firms in Hargeisa Somalia

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APPENDICES

Appendix I: Research Questionnaire

Dear respondent,

I, am Abdihakim Jama Hassan a student of Kampala International University Uganda pursuing master's degree of business administration- Accounting and Finance. As part of my study at Kampala International University, I am conducting a study on "Cost controls and Profitability in manufacturing firms in Hargeisa Somalia. Please spare some time and answer the questions that follow. Your response will be kept strictly confidential and will only be accessed by the research team. The information provided will only be used for academic purposes in this study.

Thank you very much for your time and cooperation.

Yours Cordially,

....

Researcher

Section A: Demographics of respondents (Pick the appropriate response)

Gender

- Male ☐
- Female ☐

Highest level of qualification

- Certificate and Diploma ☐
- Degree ☐
- Masters ☐
- others ☐

Age

a) 20 - 29 ☐

b) 30 - 39 ☐

c) 40 - 49 ☐

d) 50+ ☐

How long have you worked in this organization

- Less than 1 year ☐
- Below 1-3 years ☐

Between 3-5 years ☐

6 years and above ☐

Position held in the organization

Administrator ☐

Human resource ☐

Customer consultant ☐

Staff ☐

The use of Likert scale were 1= Strongly disagree, 2= Disagree, 3= Not sure 4= Agree, 5= Strongly Agree.

Direction: please tick the column corresponding rating that best describes your response using the guide below

Score	mode of response	description
4	Strongly agree	you agree with no doubt
3	Agree	you agree with some doubt
2	Disagree	you disagree with some doubt
1	Strongly disagree	you disagree with no doubt

SECTION B: Cost Control in Manufacturing firms in Hargeisa

	Budget control	**Rankings**			
	Response	**1**	**2**	**3**	**4**
BC1.	There is effective budgetary planning for the materials required				
BC2	There is effective monitoring of preliminary cost establishment				
BC3	The day to day activities are effectively budgeted for				
BC4	There manufacturing costs are effectively determined before production				
BC5	There is effective budgeting at departmental levels				
BC6	There is an accountable budgetary framework				
BC7	The management teams usually okays the budgeting process				
	COST ALLOCATION				
CA1.	There is effective determination of unit cost at levels of operations				

CA2.	There is organization employ a steady and highly established cost allocation mechanism				
CA3.	The management teams determine the efficiency and effectiveness of costs allocated				
CA4.	The organizational status is sufficient for determining the direction of cost applications				
CA5.	There is a system for effective cost tracking for efficiency				
CA6.	The management provide avenues and time schedule for the costs allocated				
CA7.	There is established stakeholder stance in cost allocation				
	COST MONITORING AND CONTROL				
CMC1	There is effective cost control monitoring in the organization				
CMC2	The companies have effective cost monitoring teams in the organization				
CMC3	There is effective assessment of cost requirements for the organizations				
CMC4	The management employees monitor the establishment of costs				
CMC5	The organizational members provide for the operational capacity				
CMC6	There is effective cost control by management of this organization				
CMC7	The organizations employ systems for effective cost control and operations				

SECTION C: Level of Profitability manufacturing firms in Hargeisa Somalia

Indicate your level of agreement on the following determinants of profitability in the manufacturing companies.

	Profitability	**1**	**2**	**3**	**4**
	Gross profit margin				
1	You always plan and meet the desired profits				
2	Survival of this business has been due to the profits you always earn				
3	The returns on capital employed is appropriate to the expectations of the owner(s)				
4	You always plan to increase profitability in the business				
5	Your business revenue have always exceeded the expenditure				
	Return on assets				
1	Your business has attained expansion because of high returns on assets				
2	The current assets are generative of more profits in your business				
3	There has been gained profits on the capital employed by business				
4	The net operating assets sufficiently support your daily operations				
5	The return on assets is higher than the costs of operation in the previous period				
	Returns on invested capital				
1	Shareholders of this business receive relatively high returns				
2	Your net profit margins are high				
3	Your business has reached a point at which revenues are equal to expenses				
4	Your sales are higher than the cost of goods sold per month				
5	The state of capital in your business is steadily growing every day				

Appendix II: Interview Guide for Administrators

What is the effect of budget control on profitability of manufacturing firms in Hargeisa, Somalia?

What is the effect of cost allocation on profitability of manufacturing firms in Hargeisa, Somalia?

What is the effect of cost monitoring and control on profitability of manufacturing firms in Hargeisa, Somalia?

Appendix III: Table for determining the sample size

Krejucie, Robert V, Morgan, Daryle W, table of 1970

N	S	N	S	N	S	N	S	N	S
10	10	100	80	**280**	**162**	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size

"S" is sample size.